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Report to the United Nations Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions

Summary

The present document reports on the steps taken or to be taken in response to the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2000-2001. The focus of this report relates to those recommendations that at the time of the previous report were either not implemented or only partially implemented.

Contents

		Paragraphs	Page
I.	Introduction	1–5	2
II.	Progress report on specific steps taken to implement the recommendations of the Board of Auditors on the UNICEF accounts for biennium 2000-2001	6–74	2

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I. Introduction

1. As an ongoing practice, UNICEF has been submitting a report to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ), to advise the Assembly as to the measures that the organization takes to implement the recommendations of the United Nations Board of Auditors.

2. The present report reviews the implementation by UNICEF of the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2001-2002.

3. The administration wishes to reiterate that, to underline the importance that UNICEF places on audit recommendations from both the United Nations Board of Auditors and its own Office of Internal Audit, UNICEF has institutionalized the procedures for the review of audit matters through the Audit Committee. The Committee, which is composed of senior staff of the organization, including external representation of another United Nations organization, periodically reviews matters of critical concern raised during both external and internal audits. The Audit Committee, which is chaired by the Executive Director, has instituted an appropriate follow-up mechanism whereby the responsible and accountable officials are asked to provide explanations on audit matters pertaining to their offices. UNICEF has also put in place internal monitoring mechanisms for the implementation of external audit recommendations and is working within various forums to optimize coordination with United Nations partners.

4. As noted by the General Assembly in A/54/159, dated 2 July 1999, the administration has informed the United Nations Board of Auditors that one officer, the Executive Director, is responsible for overseeing the implementation of audit recommendations. This accountability is shared by the senior staff responsible for the specific areas covered in the audit recommendations.

5. The present document is submitted to the Board of Auditors and ACABQ for their evaluation.

II. Progress report on specific steps taken to implement the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 2001-2002

Recommendation No. 14 (a)

6. Review, in conjunction with United Nations Headquarters, the funding mechanism and targets for end-of-service liabilities in line with other United Nations organizations.

Measures taken by UNICEF

7. A reserve for After-Service Health Insurance was approved by the Executive Board and is included in the 2002-2003 financial statements. Contributions to the reserve will be provided in each biennium in the amount of a minimum of $10 million.

Responsible officer: Comptroller

Recommendation No. 14 (b)

8. Manage more proactively its accounts receivable from donors, National Committees and staff.

Measures taken by UNICEF

9. A monitoring system has been instituted to enable the UNICEF Programme Funding Office to facilitate the follow-up on outstanding receivables with donors. Since 2001, a vigorous effort has been made to reduce the volume of outstanding personal advances recoverable. As of February 2004, the number of items open for more than 24 months had been reduced from 3,930 to 1,200. Efforts will continue in 2004 to further reduce open items.

Responsible officer: Comptroller

Recommendation No. 14 (c)

10. Disclose recovery charges as programme support, and management and administration costs borne by other resources.

Measures taken by UNICEF

11. A review of underlying regulations and rules affirms that UNICEF reports expenditures in compliance with approvals made by its Executive Board. To ensure transparent disclosure, UNICEF reports expenditures in its financial statements against the same Board approvals.

12. Statement VII shows expenditures against Board approvals for programme assistance, programme support, and management and administration. Statement I summarizes expenditures under the same headings. The total recovery charge is identified in statement IV.

13. As agreed with the Board, UNICEF will continue to explore the best ways to assure adequate disclosure of all programme support, as well as management and administration costs borne by other resources.

Responsible officer: Comptroller

Recommendation No. 14 (d)

14. In consultation with other United Nations agencies, finalize without further delay the review of its policy on contributions-in-kind with a view to fully disclosing those used in the normal course of activities, and for which a fair value can be reasonably estimated.

Measures taken by UNICEF

15. UNICEF has developed a draft policy after wide consultation with headquarters divisions, a field reference group and other stakeholders. The policy was expected to be issued by end-June 2004.

Responsible officer: Comptroller

Recommendation No. 14 (e)

16. Consolidate summary performance indicators, at the regional and global levels, possibly through an automatic data extraction from the UNICEF Programme Manager System (ProMS).

Measures taken by UNICEF

17. The Division of Policy and Planning has updated the guidelines for country office annual reports for 2003, taking into account the experiences gained with the analysis of those annual reports for 2002. By and large, the experience in using the annual report guidelines and indicators for 2002 was constructive. However, improvements have been made to the indicators, in particular to streamline the number of indicators and to improve the quality of questions used to gather data on the indicators Executive Director's 2003 annual report to the Executive Board.

18. In addition, ProMS provides a rich data source for extracting data on UNICEF programme expenditures at the country programme, programme, project and activity levels.

Responsible officer: Director, Division of Policy and Planning

Recommendation No. 14 (f)

19. UNICEF take the opportunity of the triennial comprehensive policy review to consider the option of changing its financial regulations and rules, as requested by the Advisory Committee, to the effect that cash advances do not become programme expenditure until the appropriate financial utilization reports have been received.

Measures taken by UNICEF

20. In 2003, the inter-agency Resource Transfer Modalities (RTM) group proposed to the Programme Group/Management Group components of a framework for cash transfers to national partners. Review of these components by a high-level RTM committee representing the four Executive Committees (UNICEF, the United Nations Development Programme, the United Nations Population Fund and the World Food Programme), in a meeting on 7 January 2004, has led to broad-based agreements in a number of areas (reporting format, periodicity, audit and the need for conducting a financial accountability assessment). These are to be elucidated further through technical work and field visit validation. Accounting was also discussed in the meeting, and three Executive Committee agencies agreed on the principle of expensing the disbursements, while the fourth one asked to be given time to experiment with its new Enterprise Resource Planning system for a year before it takes a decision in this area. The objective is to harmonize procedures between these agencies in terms of cash transfers to national partners. Since the meeting in January 2004, a field visit to Kenya, led by the Director of the United Nations Development Group Office and including representatives from the four agencies and a consultant, has taken place. A mission report and a draft note of the approach of transferring cash to national partners have been produced. Also, the RTM group has been reconstituted to ensure multi-disciplinarity in the composition of the team. The RTM work should result in some harmonization agreements about cash transfer procedures to partners that are based on best practices in the United Nations, and fall within the larger context of Organization for Economic

Cooperation and Development (OECD)/Development Assistance Committee (DAC) harmonization.

Responsible officer: Comptroller

Recommendation No. 14 (h)

21. (1) Adopt a consolidated Treasury Manual; (2) review the opportunity to include external members in its Financial Advisory Committee (FAC); (3) consider investing in a more diversified portfolio; and (4) use external fund managers.

Measures taken by UNICEF

22. Consolidated Treasury Guidelines were presented to and approved by the FAC on 4 December 2003. On 10 September 2003, the FAC approved the inclusion by invitation of other treasurers and/or experts from United Nations organizations, and the diversification of the portfolio. The FAC also approved the continued use of internal management of the portfolio.

Responsible officer: Comptroller

Recommendation No. 14 (i)

23. Improve its information technology security by finalizing its corporate information security policy and, in consultation with other United Nations organizations, complete its disaster recovery plan as soon as possible.

Measures taken by UNICEF

24. The UNICEF Information Security Policy and the related Code of Conduct (CF/EXD/2003/023), was issued on 13 October 2003. Both draft and final versions were shared with the United Nations Secretariat.

25. Work on the disaster recovery plan is ongoing. Thus far, connectivity has been established between the Regional Office for Europe in Geneva, the Supply Division in headquarters Copenhagen and New York. New York is no longer the single point of connectivity, and resiliency between the two other locations and e-mail has been improved. The Business Continuity Project, which was approved as an investment project for the 2004-2005 biennium, will allow further advances to guard against any disruptions.

26. Discussions with the United Nations will be pursued within the above context.

Responsible officer: Director, Information Technology Division

Recommendation No. 14 (j)

27. Review and monitor more closely the appropriateness of its Private Sector Division's (PSD) means to reach its strategic targets, such as the recovery of sale proceeds and the development of fund-raising.

Measures taken by UNICEF

28. Ongoing. The Joint Strategic Planning (JSP) process with National Committees, jointly managed by PSD and the Regional Office for Europe, ensures focused implementation of established private sector fund-raising and sales

strategies. PSD investment funds are strategically invested and actual results achieved by campaigns by each National Committee are monitored and analysed. This has contributed to the achievement of positive results in 2003.

Responsible officer: Director, Private Sector Division

Recommendation No. 28

29. The Board recommends that UNICEF record differences in exchange rates in the financial period in which they arise, while terminating the present $20.9 million provision.

Measures taken by UNICEF

30. In consultation with the Board of Auditors, PSD has discontinued the provision for exchange rate fluctuation in 2003. It has also agreed to take back the existing reserve of $19.6 million in two instalments over the next biennium, i.e., $9.8 million in both 2004 and 2005.

Responsible officer: Comptroller

Recommendation No. 30

31. The Board recommends, and UNICEF agreed, that its classification of convertible and non-convertible currencies be revised, which it could do in consultation with other United Nations organizations.

Measures taken by UNICEF

32. UNICEF has consulted with the United Nations and the International Monetary Fund regarding currency convertibility. As there is no recognized classification for convertible and non-convertible currencies, UNICEF will continue to use its current categorizing, linking bank accounts with types of currencies.

Responsible officer: Comptroller

Recommendation No. 32

33. The Board recommended, and UNICEF agreed that, for consistency bank charges and fees should be recorded and categorized under "bank charges" in the general ledger.

Measures taken by UNICEF

34. UNICEF has created a budget line in the 2004-2005 budget against which bank charges will be recorded for posting to the general ledger.

Responsible officer: Comptroller

Recommendation No. 35

35. The Board recommended, and UNICEF agreed, that its pension calculation be improved to further reduce discrepancies with the United Nations Joint Staff Pension Fund statements.

Measures taken by UNICEF

36. As of 31 December 2003, the majority of UNICEF offices are using the ProMS Personnel and Payroll module to process payroll. This has significantly improved the pension calculation for local personnel and has significantly reduced discrepancies with the Pension Fund.

Responsible officer: Comptroller

Recommendation No. 49

37. The Board recommended, and UNICEF agreed, that UNICEF consult with other United Nations entities to determine a common accounting treatment of Central Emergency Revolving Fund (CERF) expenditures.

Measures taken by UNICEF

38. Further to consulting with other United Nations agencies, this issue was raised at the United Nations Accounting Standards meeting, and the consensus is that the current practice employed by UNICEF is in line with the United Nations Stand-by Agreements System.

Responsible officer: Comptroller

Recommendation No. 51

39. The Board recommended, and UNICEF agreed, to establish clear guidelines within the Operations Emergency Manual that is being drafted to determine when the Emergency Programme Fund or CERF should be used.

Measures taken by UNICEF

40. An Administrative Instruction was released to this effect in March 2004.

Responsible officer: Comptroller

Recommendation No. 54

41. The Board recommended, and UNICEF agreed, to (i) review more thoroughly its unliquidated obligations at year-end, in compliance with financial regulations; and (ii) amend the reports to the donors where appropriate.

Measures taken by UNICEF

42. UNICEF headquarter continues to carefully review unliquidated obligations at year-end. This review will remain part of the standard closure activities.

Responsible officer: Comptroller

Recommendation No. 56

43. The Board recommended, and UNICEF agreed, to (i) issue a consolidated field accounting manual; and (ii) evaluate the cost-effectiveness of having its ProMS documentation translated into languages widely used by its staff.

Measures taken by UNICEF

44. It has been agreed to update the ProMS On-Line Help and, in conjunction with this, UNICEF will evaluate the need for a separate accounting manual and the cost-effectiveness of translating the Help function into other languages. Work on this is to be completed in 2004.

Responsible officer: Comptroller

Recommendation No. 67

45. The Board recommended, and UNICEF agreed, to disclose all the non-expendable property (NEP) under its custody, regardless of their source of funding, and expand the note on its policy regarding non-expendable property disclosure.

Measures taken by UNICEF

46. All NEP, regardless of source of funding, will be disclosed in the note to the 2002-2003 financial statement.

Responsible officer: Comptroller

Recommendation No. 78

47. The Board recommends that UNICEF compute and disclose the value of its in-kind contributions to the Vaccine Alliance and, when applicable, in other similar cases.

Measures taken by UNICEF

48. UNICEF will make such disclosures in the future.

Responsible officer: Comptroller

Recommendation No. 82

49. The Board recommended, and UNICEF agreed, to consult with other United Nations organizations as to their standard procedures and establish a formal standardized procedure for contribution pledge write-offs, so as to reflect the "full investigation" requirement and timing criteria.

Measures taken by UNICEF

50. Upon consultation with other United Nations agencies, Financial Circular No. 31, Revision 2, was issued, providing procedures for write-off of outstanding receivables.

Responsible officer: Comptroller

Recommendation No. 89

51. The Board recommended, and UNICEF agreed, to undertake a review of the financial rate of implementation in order to prevent a pattern of excessive concentration of expenditures during the last quarter.

Recommendation No. 125

52. The Board recommended, and UNICEF agreed, to strengthen the analysis of patterns of disbursements by field offices as part of its oversight responsibility.

Measures taken by UNICEF

53. The Comptroller has provided the disbursement trends for analysis to regional offices and Programme Division for the years 2001-2003. This matter was also discussed during Regional Management Team meetings and recently in a Global Management Team meeting. Other divisions and offices within UNICEF have also been requested to provide necessary guidance, in order to elucidate further the analytical basis of these trends. Headquarters will continue to monitor the pattern of financial implementation and take appropriate action where necessary.

Responsible officer: Comptroller

Recommendation No. 128

54. The Board recommended, and UNICEF agreed, to collect information on the quality standards developed by other international institutions, identify best practice, provide guidance to field offices and monitor the application of the guidance.

Measures taken by UNICEF

55. UNICEF continues to improve the quality assurance to field offices regarding Cash Assistance to Government through, inter alia, internal audit reviews and guidance provided through the Programme Policy and Procedure Manual. Also, the ongoing inter-agency work on resource transfer modalities should result in some harmonization agreements about cash transfer procedures to partners that are based on best practices in the United Nations and fall within the larger context of OECD/DAC harmonization. Reference can be made in particular to the guidelines for the conduct of the financial accountability assessments, those pertaining both to the macro level and to the level of implementing partners. This is work in progress.

Responsible officer: Comptroller

Recommendation No. 143

56. The Board recommended, and UNICEF agreed, to establish proper guidelines on outsourcing decisions, and take action to ensure that outsourcing decisions are properly documented in compliance with United Nations regulations.

Measures taken by UNICEF

57. The process to outsource low-value/low-volume procurement is in progress. Bid offers from different companies are being evaluated, and technical recommendations were expected by end-April 2004. A draft paper on UNICEF outsourcing strategy has been written. This paper will be finalized after the low value/low volume pharmaceutical outsourcing arrangement is in place.

Responsible officer: Director, Supply Division

Recommendation No. 146

58. The Board recommends (i) that UNICEF review the present rules, with a view to ensuring adherence to the most demanding standards on ethics, gifts and offers of hospitality; (ii) that a declaration of existing interests be obtained from the professional staff of the Supply Division; and (iii) that staff members be reminded of existing regulations and rules regarding interest in supplier companies.

Measures taken by UNICEF

59. Supply Division has been advised to use the format in the UNICEF Financial Regulations and Rules and the Code of Conduct, which advise all UNICEF staff to declare their existing interests in corporations and contractors upon appointment, to avoid situations of conflict of interest.

60. Ethics training is ongoing at different levels and includes field support workshops and scheduled ethics training sessions for Supply Division staff, conducted by the Supply Division training Unit. The next round of training is scheduled for September 2004.

Responsible officer: Director, Supply Division

Recommendation No. 172

61. The Board recommended, and UNICEF agreed, to improve its bank reconciliation procedures.

Measures taken by UNICEF

62. UNICEF headquarters has followed-up with field offices on the procedures and reporting requirements regarding bank reconciliations. Headquarters now completes a more comprehensive review of field office bank reconciliation, communicating any issues directly with the respective field offices on a timely basis. Changes made to ProMS has facilitated improved reconciliation procedures.

Responsible officer: Comptroller

Recommendation No. 187

63. The Board recommended, and UNICEF agreed, to pursue its efforts to sign the new cooperation agreements with all National Committees and sales partners by the end of 2002.

Measures taken by UNICEF

64. Cooperation Agreements are being signed with five National Committees (Australia, Austria, Canada, Greece and Hungary). Two Agreements will be signed at the Annual Meeting of National Committees (in April), another one in mid-June 2004, and the remaining two by the end of 2004. As of 31 December 2003, 31 Agreements had been signed.

Responsible officer: Director, Regional Office for Europe

Recommendation No. 190

Recommendation No. 190

65. The Board recommends that UNICEF pay more attention to qualified opinions given by local external auditors and to obtaining the desirable improvements from the concerned National Committees.

Measures taken by UNICEF

66. Ongoing. PSD rigorously pursues receipt of audited financial statements. Any qualified opinions are then followed up with the respective National Committee to ensure that corrective measures are taken.

Responsible officer: Director, Private Sector Division

Recommendation No. 192

67. The Board recommended, and UNICEF agreed, to pursue efforts to receive on time audited financial statements from every National Committee, so they can be of use, to the extent possible, for reconciliation with the final cash accounting report for the record of PSD revenue.

68. Ongoing. After some very active negotiation by PSD, National Committees that did not comply up to 2002 have now agreed to comply with the appointment of external auditors and the preparation of audited financial statements. PSD has proposed that the financial reporting package accompanying the audited financial statements also be certified by the external auditors.

Responsible officer: Director, Private Sector Division

Recommendation No. 194

69. The Board recommended, and UNICEF agreed, to secure a quarterly remittance of sales proceeds from National Committees.

Measures taken by UNICEF

70. Ongoing. Cash flow projections with quarterly payments have been obtained from all large National Committees and are closely followed-up for payment compliance, in collaboration with the Division of Financial and Administrative Management.

Responsible officer: Director, Private Sector Division

Recommendation No. 198

71. The Board recommended, and UNICEF agreed, to strengthen its stock management procedures, which may include more precise forecasts and deliveries, in order to reduce destruction costs.

Measures taken by UNICEF

72. Strengthened inventory management procedures are helping to control overall inventory levels (further reduction was noted in inventory levels on 31 December 2002 and again on 31 December 2003), while cost effectively ensuring adequate inventory supply to partners.

Responsible officer: Director, Private Sector Division

Recommendation No. 202

73. The Board recommended, and UNICEF agreed, to design standard, cost-effective procedures for the legal, operational and financial review of fund-raising contracts.

Measures taken by UNICEF

74. Management has advised the Board of Auditors that it will consult with the Office of Legal Affairs in implementing this recommendation. In discussions with the General Legal Division, it has been agreed that UNICEF will prepare an initial draft of such a standard agreement based on its experience with private sector contributions and provide it to the General Legal Division for review and comment. Work on the standard has commenced and it will be circulated to relevant parts of the UNICEF secretariat for comment before being provided to the Office of Legal Affairs. Management will also consult with other parts of the United Nations system to benefit from their experience. Management anticipates that this process could take at least six months to complete.

Responsible officer: Deputy Executive Director for Operations